

Beal City Public Schools

Mt. Pleasant, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2006

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Beal City Public Schools
Members of the Board of Education and Administration
June 30, 2006

Members of the Board of Education

Joyce Schafer – President

Terry Hutchinson – Vice President

Mark Rau – Secretary

Jim Kremsreiter – Treasurer

Frank Fox – Trustee

Robert Pasch – Trustee

Kari Rojas – Trustee

Administration

Robert Kjolhede – Superintendent

Jeff Jackson – High School Principal

Diane Saltarelli – Elementary Principal

Julie Freeze – Business Manager



7810 N. Alger Rd.
Alma, MI 48801
Phone (989) 463-6108
Fax (989) 463-8560

Independent Auditors' Report

To the Board of Education
Beal City Public Schools
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Beal City Public Schools as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Beal City Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Beal City Public Schools as of June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 20, 2006, on our consideration of the Beal City Public Schools' internal control over financial reporting and on our tests of its provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The administration's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beal City Public Schools' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Alma, Michigan
July 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

Beal City Public Schools (the District) Administration discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address financial challenges in the years to come. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basics Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2006.

The following is an outline of how this financial report is presented.

Section 3
AD&A

Administration's Discussion And Analysis
(required supplementary information)

Section 4
Basic Financial Statements

Fund Financial Statements
District – wide Financial Statements
Notes to financial statements

Section 5
Supplementary Information

Budgetary Comparison Schedule

Section 6
Other Supplementary Information

Combining Balance Sheets
Combining Statement of Revenues,
Expenditures and Changes in Fund
Balances
Statement of Bonded Indebtedness
Report on Internal Control Over Financial
Reporting and on Compliance and other Matters

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

As noted above, Section 4 contains two basic types of financial statements: District Wide Financial Statements and Fund Financial Statements in accordance with GASB 34.

District Wide Financial Statements

The District wide financial statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District wide statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

The Statement of Activities presents information showing how the school district's net assets changed during the fiscal year. To be consistent with full accrual basis accounting, all changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

The fund statements are reported using the modified accrual method of accounting. Under this method of accounting, revenues are recorded when received or when they are measurable and expenditures are accounted for in the period those goods and services were used to provide school programs. In addition, capital asset purchases are expensed in totality in the year purchased and not recorded as an asset. Debt payments are recorded as expenditures when they are paid and future debt obligations are not recorded.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Fund, Capital Project Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived primarily from property taxes, state and federal distributions and grants. The Special Revenue Fund is comprised of Athletic Activities and Food Service. The Debt Fund is used to record the funding and payment of principal and interest on bonded debt. The Capital Project Fund is used to record the funding and payment of building construction and major site improvements. The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

Financial Analysis of the District as a Whole

Summary of Net Assets		
	<u>2006</u>	Restated <u>2005</u>
Assets		
Current assets	\$ 2,686,686	\$ 2,867,554
Other assets	57,168	61,111
Capital assets	10,681,797	10,428,662
less accumulated depreciation	<u>(3,349,187)</u>	<u>(3,000,551)</u>
Capital Assets, net book value	<u>7,332,610</u>	<u>7,428,111</u>
 Total Assets	 <u><u>\$10,076,464</u></u>	 <u><u>\$ 10,356,776</u></u>
 Liabilities		
Current liabilities	\$ 878,980	\$ 890,284
Long-term liabilities	<u>6,664,790</u>	<u>6,854,810</u>
 Total Liabilities	 <u><u>\$ 7,543,770</u></u>	 <u><u>\$ 7,745,094</u></u>
 Net Assets		
Total capital assets, net of related debt	\$ 443,351	\$ 377,849
Restricted for debt service	70,477	4,195
Restricted for grants	135,623	64,244
Unrestricted	<u>1,883,243</u>	<u>2,165,394</u>
	<u><u>\$ 2,532,694</u></u>	<u><u>\$ 2,611,682</u></u>

Summary of Net Assets

As indicated by the statement above, total net assets are \$2,532,694. Net assets can be separated into the following categories: net capital assets net of related debt, restricted for debt service, restricted for grants, and unrestricted assets.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

Net capital assets are a combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$10,681,797, which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. Total accumulated depreciation is \$3,349,187. Most capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due through property taxes approved by the voters.

The remaining \$1,883,243 of net assets is unrestricted. The unrestricted fund balance is an accumulation of prior years' operating results. This balance is directly affected each year by the District's operating results.

Results of operations

	<u>2006</u>	Restated <u>2005</u>
Revenues		
Charges for Services	\$205,530	\$190,175
Operating and Capital Grants and Contributions	860,504	748,193
General Revenues	<u>4,968,283</u>	<u>4,609,831</u>
Total Revenue	<u>6,034,317</u>	<u>5,548,199</u>
Expenses		
Instruction	3,436,299	3,188,309
Supporting services	1,918,865	1,915,690
Food services	209,362	211,830
Athletics	289,667	198,847
Community Services	2,125	168
Interest on long-term debt	<u>256,987</u>	<u>221,290</u>
Total expenses	<u>6,113,305</u>	<u>5,736,134</u>
 Decrease in net assets	 <u>(\$78,988)</u>	 <u>(\$187,935)</u>

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

The total increase in revenue from 2004/2005 to 2005/2006 for all Governmental Funds including General Fund and Nonmajor Governmental Funds totaled \$407,054. The majority of that increase was from the General Fund. This increase in the General Fund was due in part to local revenues increasing by \$84,085 due to increases in tuition revenue, interest revenue and an increase in grants awards from the Saginaw Chippewa Indian Tribe. State sources in the General Fund increased by \$324,414 primarily due to the increase in the basic foundation allowance of \$175 per student and the increase in the State Aid Membership from 622.56 students to 656.44. Interdistrict sources also saw an increase of \$17,774. The only revenue source that saw a decrease from 2004/2005 to 2005/2006 were Federal revenues which saw a slight decrease of \$5,698

The total increase in expenses from 2004/2005 to 2005/2006 for all Governmental Funds including General Fund and Nonmajor Governmental funds was \$350,359. General Fund expenditures increased by \$233,736 which were made up in a variety of areas such as Instruction and Support Services expenses as well as an increase in capital outlay. The increase in Nonmajor Governmental Funds of \$116,623 was primarily made up of capital outlay expenses.

As indicated above net assets decreased by \$78,988 for the year ended June 30, 2006. This net decrease is significantly lower than the \$187,935 decrease in net assets in 2004/2005.

Revenues

Local revenues are primarily made up of property tax to fund operating expenses and retire debt of previous bond issues. Local revenues also include grant awards from the Saginaw Chippewa Indian Tribe in the amount of \$178,115. Other sources of local revenue include fees and charges for services such as hot lunch, athletic gate receipts, and preschool and driver's education tuition.

State revenues account for the majority of the district's revenues and consist primarily of the per student foundation allowance. State revenues make up 86% of the district's general fund revenues. This ties the district directly to the overall economy of the State of Michigan.

Federal sources include Title grants and a small rural schools grant in the General Fund and monies for the Food Service Fund.

Interdistrict sources of revenue consist of the County special education tax collected and distributed by the local Intermediate School District.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

Property Taxes

A major portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Property tax revenue totaled \$652,608. This amount was obtained through a combination of two voter approved millage levies totaling 18 mills on the taxable value of non-homestead properties for the District's operation and a voter approved 7 mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments of bond issues.

TAXABLE VALUE HISTORY

YEAR	TAXABLE VALUE	GROWTH
2000	48,088,621	6.86%
2001	51,572,238	7.24%
2002	54,812,045	6.28%
2003	58,007,561	5.83%
2004	61,625,268	6.24%
2005	65,581,691	6.42%

State Aid Foundation Allowance

A significant portion of state funding to the District is received through the foundation allowance. The foundation allowance is funding from the state based on student enrollment. Student enrollment is blended at 75% of current year September count and 25% of prior year February count. The blended enrollment of Beal City Public Schools for 2005/2006 was 656.44 students an increase of 33.88 from the 2004/2005 student enrollment of 622.56. The State of Michigan establishes per student foundation allowance on an annual basis. The foundation allowance for the 2005/2006 school year was \$6,875.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

Capital Assets and Debt Administration

Capital Assets

On June 30, 2006 the District had \$7,332,610 invested in a broad range of capital assets as illustrated below:

Assets

Land	\$ 194,145
Buildings and additions	7,027,476
Site improvements	1,725,248
Equipment and furniture	653,881
Buses and other vehicles	690,825
Fiber optic network	<u>390,222</u>
Subtotal	10,681,797
Less accumulated depreciation	<u>3,349,187</u>
Net Capital Assets	<u><u>\$ 7,332,610</u></u>

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

Long-term debt

At the end of the current fiscal year, the Beal City Public School district had total General Obligation Bonded debt outstanding of \$5,800,000. This consists of two bond issues: The 2002 bond issue for the athletic complex, and the 2004 refunding issue of the 1996 issue for the addition to the high school. Other long term debt includes obligations to repay the school bond loan fund. This will be accomplished as the revenues provided by the debt millage exceed the debt service requirements.

General Fund Budgetary Highlights

Original vs. Actual Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

The district amended its budget twice during the 2005/2006 school year. For the fiscal year 2005/2006, the budget was amended in November 2005 and June 2006.

General Fund Revenues Budget vs. Actual Revenues				
Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Variance of final to actual
2005/2006	\$4,829,550	\$5,240,297	\$5,289,426	\$49,129

The District's actual general fund revenues were more than the final budget by \$49,129. This majority of this variance is the \$43,140 of deferred adult education revenue that was realized at the end of the year. In addition, a prior year denial of principal residence tax check was received after the final budget amendment and the special education millage from the RESD was slightly higher than anticipated.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

General Fund Expenditures Budget vs. Actual Expenditures

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Variance of final to actual
2005/2006	\$5,398,890	\$5,715,941	\$5,486,862	\$(229,079)

The district's general fund expenditures were less than the final expenditure budget by \$229,079. Tribal grants received from the Saginaw Chippewa Indian Tribe make up a large portion of the discrepancy in budgeted to actual expenditures. Many tribal grants were budgeted for, but not spent in the 2005/2006 fiscal year. Those tribal grant budget items remaining at the end of the 2005/2006 fiscal year will be carried over to the 2006/2007 budget. Teaching expenses were over budgeted due to an unpaid leave taken by an elementary teacher. The sick leave bank committee did not make a final decision on sick bank usage for this employee until after the final budget was approved by the Board of Education.

Economic Factors and Next Year's Budgets and Rates

The State has set the foundation allowance at \$7,085 for the 2006/2007 year. However, if State revenues do not meet expectations the District may be faced with a per student proration during the 2006/2007 fiscal year.

While the State Aid Foundation Allowance will increase by \$210 per student, the district's expenditures are likely to increase at a higher rate.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2006**

The contract between the Beal City Board of Education and the Beal City Education Association (BCEA) expired on June 30, 2006. The district is currently engaged in negotiations with the BCEA to settle a new contract. While negotiations have gone well up to this point the only issues left to deal with are wages, benefits and the calendar. A mediator has been contacted and will be a part of the next bargaining session. The Board of Education is committed to settling a contract that is both fair to the BCEA members and fair to the District. The Board of Education wants to safeguard the financial future of the district.

The State required retirement contribution will increase from 16.34% to 17.74% of employee wages on October 1, 2006. A change has been made in the health insurance coverage for all non teaching staff. They have moved from a 5/10 drug card to a 10/20 drug card. This change has also been offered to the teaching staff through negotiations.

Although final student count numbers for September 2006 have not yet been determined, the preliminary numbers indicate no significant change in student enrollment from the 2005/2006 year. Additional sections of classes for the 7th grade students were added last year due to the large number of students in 7th grade. For the 2006/2007 additional classes will be necessary for the 8th grade class as these students progress through the middle school. When this group of students enter 9th grade the need for additional sections should be eliminated.

The Board of Education has approved a number of budget cuts and revenue generators for the 2006/2007 year. Cuts included one secondary teaching position, one part time custodian, one part time paraprofessional, limits on vocational education transportation and elimination of ITV. A sports participation fee has been implemented this year for junior high and high school athletes to help offset the costs of the athletic program. The Board of Education is committed to ensuring the financial stability of the school district. As there seems to be no end in sight to the poor economic conditions of the State of Michigan, the Board feels the need to be very cautious with spending. An increase by \$210 per student in foundation allowance is more that the school district has seen in a number of years. However, the state constitution mandates the state to have a balanced budget. If state revenues are not sufficient to generate the needed dollars to fund the foundation allowance, the school district could see the foundation allowance prorated to balance the state budget. During prior years when the state has prorated the foundation allowance, Beal City Public Schools has had the fortune of the Saginaw Chippewa Indian Tribe making up the prorated amount. There is no guarantee that the tribe will continue to do that in the future.

Health insurance benefits continue to be a significant cost to the district and they are being addressed in the negotiation process.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the finances for the Beal City Public Schools for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Beal City Public Schools Central Office, 3117 Elias Drive, Mt. Pleasant, MI 48858.

BASIC FINANCIAL STATEMENTS

Beal City Public Schools
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,805,744
Accounts receivable	19,388
Due from other governmental units	820,015
Interest receivable	13,863
Inventory	1,454
Prepaid items	26,222
Other assets	57,168
Capital assets not being depreciated	194,145
Capital assets - net of accumulated depreciation	<u>7,138,465</u>
 Total assets	 <u>10,076,464</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 51,735
Accrued expenditures	182,903
Accrued salaries payable	278,419
Deferred revenue	19,832
Noncurrent liabilities	
Due within one year	346,091
Due in more than one year	<u>6,664,790</u>
Total liabilities	<u>7,543,770</u>
Net Assets	
Invested in capital assets, net of related debt	443,351
Restricted for:	
Debt service	70,477
Grants	135,623
Unrestricted	<u>1,883,243</u>
Total net assets	<u>\$ 2,532,694</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Statement of Activities
For the Year Ended June 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
Instruction	\$ 3,436,299	\$ 30,439	\$ 692,825	\$ 60,015	\$ (2,653,020)
Supporting services	1,918,865	11,394	-	-	(1,907,471)
Food services	209,362	115,201	99,174	-	5,013
Athletic activities	289,667	48,496	8,490	-	(232,681)
Community services	2,125	-	-	-	(2,125)
Interest on long-term debt	256,987	-	-	-	(256,987)
Total governmental activities	<u>\$ 6,113,305</u>	<u>\$ 205,530</u>	<u>\$ 800,489</u>	<u>\$ 60,015</u>	<u>(5,047,271)</u>
General revenues					
Property taxes, levied for general purposes					193,210
Property taxes, levied for debt service					459,398
State aid - unrestricted					4,256,713
Interest and investment earnings					45,859
Other					<u>13,103</u>
Total general revenues					<u>4,968,283</u>
Change in net assets					(78,988)
Net assets - beginning					<u>2,611,682</u>
Net assets - ending					<u>\$ 2,532,694</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Governmental Funds
Balance Sheet
June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 1,495,526	\$ 310,218	\$ 1,805,744
Accounts receivable	16,451	2,937	19,388
Due from other funds	-	21,744	21,744
Due from other governmental units	818,455	1,560	820,015
Interest receivable	13,863	-	13,863
Inventory	-	1,454	1,454
Prepaid items	26,222	-	26,222
Total assets	<u>\$ 2,370,517</u>	<u>\$ 337,913</u>	<u>\$ 2,708,430</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 41,239	\$ 10,496	\$ 51,735
Due to other funds	21,744	-	21,744
Accrued expenditures	181,396	1,507	182,903
Accrued salaries payable	275,502	2,917	278,419
Deferred revenue	13,863	5,969	19,832
Total liabilities	<u>533,744</u>	<u>20,889</u>	<u>554,633</u>
Fund Balance			
Reserved for inventory	-	1,454	1,454
Reserved for prepaid items	26,222	-	26,222
Reserved for debt service	-	70,477	70,477
Reserved for capital projects	-	166,686	166,686
Reserved for grants	135,623	-	135,623
Other undesignated	1,674,928	78,407	1,753,335
Total fund balance	<u>1,836,773</u>	<u>317,024</u>	<u>2,153,797</u>
Total liabilities and fund balance	<u>\$ 2,370,517</u>	<u>\$ 337,913</u>	<u>\$ 2,708,430</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
to Net Assets of Governmental Activities
June 30, 2006

Total fund balances for governmental funds	\$ 2,153,797
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	194,145
Capital assets - net of accumulated depreciation	7,138,465
Other long-term assets are not deferred in the governmental funds.	57,168
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(37,883)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(83,739)
Bonds payable	(5,827,887)
School bond loan payable	(823,987)
Other loans payable and liabilities	<u>(237,385)</u>
Net assets of governmental activities	<u><u>\$ 2,532,694</u></u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 453,293	\$ 642,401	\$ 1,095,694
State sources	4,529,868	16,453	4,546,321
Federal sources	99,591	86,037	185,628
Interdistrict sources	206,674	-	206,674
Total revenues	<u>5,289,426</u>	<u>744,891</u>	<u>6,034,317</u>
Expenditures			
Current			
Education			
Instruction	3,269,956	-	3,269,956
Supporting services	1,811,247	-	1,811,247
Food services	-	204,750	204,750
Athletic activities	-	194,157	194,157
Community services	2,125	-	2,125
Intergovernmental payments	5,707	-	5,707
Capital outlay	108,722	182,528	291,250
Debt service			
Principal	-	282,286	282,286
Interest and other expenditures	-	226,543	226,543
Total expenditures	<u>5,197,757</u>	<u>1,090,264</u>	<u>6,288,021</u>
Excess (deficiency) of revenues over expenditures	<u>91,669</u>	<u>(345,373)</u>	<u>(253,704)</u>
Other Financing Sources (Uses)			
Proceeds from school bond loan fund	-	68,650	68,650
Transfers in	-	317,255	317,255
Transfers out	(289,105)	(28,150)	(317,255)
Total other financing sources (uses)	<u>(289,105)</u>	<u>357,755</u>	<u>68,650</u>
Net change in fund balance	(197,436)	12,382	(185,054)
Fund balance - beginning	<u>2,034,209</u>	<u>304,642</u>	<u>2,338,851</u>
Fund balance - ending	<u>\$ 1,836,773</u>	<u>\$ 317,024</u>	<u>\$ 2,153,797</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - Total governmental funds	\$ (185,054)
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(347,729)
Capital outlay	252,228

Expenses are recorded when incurred in the statement of activities.

Interest	(30,444)
Compensated absences	(17,849)

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issued	(68,650)
Repayments of long-term debt	322,453
Amortization refunding issuance costs	<u>(3,943)</u>

Change in net assets of governmental activities	\$ <u>(78,988)</u>
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Beal City Public Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash	\$ 401	\$ 107,672
Liabilities		
Due to student groups	-	107,672
Net Assets		
Reserved for scholarships and loans	\$ 401	\$ -

See Accompanying Notes to Financial Statements

Beal City Public Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2006

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	\$ 200
Deductions	
Scholarships	<u>200</u>
Change in net assets	-
Net assets - beginning	<u>401</u>
Net assets - ending	<u>\$ 401</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Beal City Public Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted

net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough

Beal City Public Schools
Notes to Financial Statements
June 30, 2006

thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service and Athletic Funds. The annual operating deficit generated by these activities is generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Fund – The Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivable are shown net of an allowance for uncollectible amounts.

Beal City Public Schools

Notes to Financial Statements

June 30, 2006

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2006, the rates are as follows per \$1,000 of assessed value.

General Fund	
Nonhomestead	18.00000
Debt Service Funds	
Homestead and Nonhomestead	7.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 97% of the School District's tax roll lies within the Townships of Nottawa, Isabella and Deerfield.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before July 31. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Isabella and remitted to the School District by May 15.

Investments – Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of

donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	10-20 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Compensated Absences – Retiring teachers are paid four (4) percent of the teacher's current annual salary, provided the teacher has been employed in the school district for at least ten (10) years. This liability is measured using the Termination Method.

Sick days are earned by teachers at the rate of ten (10) days per year. A maximum of one hundred eighty-three (183) unused sick days may be accumulated. Upon retirement or termination of employment, unused sick days are paid at 50% of the sub rate up to 100 days. There is no contractual provision for payment of unused personal days. The current portion of any accrued sick or personal pay cannot be reasonably estimated and, as such, is not included as a current liability.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for

Beal City Public Schools
Notes to Financial Statement s
June 30, 2006

a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School District's financial statement s.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Post employment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violation s.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Beal City Public Schools
Notes to Financial Statements
June 30, 2006

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
General administration	\$ 183,273	\$ 183,498	\$ 225
Intergovernmental payments	575	5,707	5,132

government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year end, \$ 1,848,106 of the District's bank balance of \$ 1,948,106 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 3 - DEPOSITS AND INVESTMENTS

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	<u>\$ 1,805,744</u>	<u>\$ 108,073</u>	<u>\$ 1,913,817</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 1,913,817</u>
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Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S.

Beal City Public Schools
Notes to Financial Statements
June 30, 2006

NOTE 4 - CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 194,145	\$ -	\$ -	\$ 194,145
Construction in progress	16,319	-	16,319	-
Total capital assets not being depreciated	210,464	-	16,319	194,145
Capital assets being depreciated				
Buildings and additions	6,800,039	227,437	-	7,027,476
Site improvements	1,725,248	-	-	1,725,248
Equipment and furniture	612,771	41,110	-	653,881
Fiber optic network	390,222	-	-	390,222
Buses and other vehicles	690,825	-	-	690,825
Total capital assets being depreciated	10,219,105	268,547	-	10,487,652
Less accumulated depreciation for				
Buildings and additions	1,845,134	143,720	-	1,988,854
Site improvements	173,471	86,262	-	259,733
Equipment and furniture	344,054	48,551	-	392,605
Fiber optic network	146,332	19,511	-	165,843
Buses and other vehicles	492,467	49,685	-	542,152
Total accumulated depreciation	3,001,458	347,729	-	3,349,187
Net capital assets being depreciated	7,217,647	(79,182)	-	7,138,465
Net capital assets	\$ 7,428,111	\$ (79,182)	\$ 16,319	\$ 7,332,610

Depreciation expense was charged to activities of the School District as follows:

Governmental activities

Instruction	\$ 164,862
Support services	92,735
Food services	2,152
Athletic activities	87,980
Total governmental activities	<u>\$ 347,729</u>

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
Food Service	General	\$ 21,744

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year, between the General Fund, Capital Projects Fund and Athletic Fund, and also between the Debt Service Funds totaling \$ 317,255. These transfers were made to cover the costs of the School District's programs that were in excess of revenues generated from those activities. The transfer from the General fund to the Capital Projects Fund was to establish the Public Improvement fund.

Beal City Public Schools
Notes to Financial Statement s
June 30, 2006

NOTE 6 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
Student deposits	\$ 5,969
Accrued CD interest	<u>13,863</u>
Total	<u>\$ 19,832</u>

NOTE 7 - LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
General obligation bonds	\$ 6,080,000	\$ -	\$ 280,000	\$ 5,800,000	\$ 295,000
Durant bonds	30,173	-	2,286	27,887	10,924
School bond loan	723,648	100,339	-	823,987	-
Fiber optic network loan	277,552	-	40,167	237,385	40,167
Compensated absences	65,890	17,849	-	83,739	-
Deferred issuance costs	<u>(61,111)</u>	<u>-</u>	<u>(3,943)</u>	<u>(57,168)</u>	<u>-</u>
Total	<u>\$ 7,116,152</u>	<u>\$ 118,188</u>	<u>\$ 318,510</u>	<u>\$ 6,915,830</u>	<u>\$ 346,091</u>

General obligation bonds payable at year end, consists of the following:

\$1,690,000 serial bond due in annual installments of \$50,000 to \$80,000 through May 1, 2027, interest at 4.25% to 5.1%.	\$ 1,505,000
\$4,570,000 serial bond due in annual installments of \$230,000 to \$305,000 through May 1, 2021, interest at 2.0% to 4.1%.	<u>4,295,000</u>
Total general obligation bonded debt	<u>\$ 5,800,000</u>

Beal City Public Schools
Notes to Financial Statements
June 30, 2006

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2007	\$ 295,000	\$ 218,338	\$ 513,338
2008	310,000	211,312	521,312
2009	325,000	202,688	527,688
2010	335,000	193,512	528,512
2011	345,000	182,712	527,712
2012-2016	1,855,000	719,813	2,574,813
2017-2021	1,855,000	354,633	2,209,633
2022-2026	400,000	81,520	481,520
2027	80,000	4,080	84,080
Total	\$ 5,800,000	\$ 2,168,608	\$ 7,968,608

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$ 70,477 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

\$47,228 Durant Refunding serial bonds due in annual installments through 5/15/2013; interest 4.76% due annually \$ 27,887

These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Future principal and interest requirements are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2007	\$ 10,924	\$ 4,727	\$ 15,651
2008	2,509	808	3,317
2009	2,628	688	3,316
2010	2,753	563	3,316
2011	2,885	432	3,317
2012-2013	6,188	446	6,634
Total	\$ 27,887	\$ 7,664	\$ 35,551

Fiber Optic Network Loan

In 1998, a consortium of schools formed the Middle Michigan Network for Educational Telecommunications (MMNET). The goal was to create an educational network that would provide the members with services that would be otherwise unattainable. High speed internet, voice over IP and interactive television were a few of the services. The group, under the consultation of a company called ISP, constructed a fiber optic network that links all of the members together.

Future loan requirements are as follows:

Year Ending June 30,	
2007	\$ 40,167
2008	40,167
2009	40,167
2010	40,167
2011	40,167
2012-2013	36,550
Total	\$ 237,385

Beal City Public Schools
Notes to Financial Statements
June 30, 2006

State School Bond Loan

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District borrowed \$ 68,650 and had an outstanding balance at year end of \$823,987, from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Compensated Absences

Accrued compensated absences at year end, consists of \$51,223 of termination pay and \$32,516 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District participates in a public entity risk pool through the School Employers Group. With the exception of unemployment described below, this program provides substantially all the insurance needs of the School District. The possibility of additional liabilities in excess of current year contributions exists, however, since the amounts are indeterminable and believed to be immaterial, no contingent liabilities or assets have been recognized on the School District's financial statements.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year. No provision has been made for possible future claims.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111.

Funding Policy

The School is required by State statute to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a

Beal City Public Schools
Notes to Financial Statements
June 30, 2006

portion of the total MPSERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent information relative to MPSERS funding for the three-year period beginning July 1, 2003 through June 30, 2006.

	2006	2005	2004
Funding percentage range	14.87-16.34%	12.99-14.87%	12.99%
Total payroll	2,991,355	2,775,741	2,788,728
Total covered payroll	2,929,452	2,728,365	2,692,648
School contributions	465,786	393,853	350,650
Employee MIP contributions	97,734	90,364	82,505
Portion of school contribution covering health, dental and vision benefits	44%	44%	47%

Trend Information

Ten-year historical trend information is presented in the September 30, 2005, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2004, the latest date for which information is available, approximates \$ 46.3 billion and \$ 38.8 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2005.

Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2005, statewide expenditures of \$ 761 million were recognized for post-retirement health care, dental and vision. This represented approximately 23% of the total expenditures of the Michigan Public School Employees Retirement System.

NOTE 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The net assets at July 1, 2005 were restated to account for \$ 17,263 in capital assets that were not added to the fixed asset schedule in the prior year. An adjustment was made to account for the cost of the new bleachers that were omitted.

Net assets - beginning of year	\$ 2,594,419
Change for fixed assets	<u>17,263</u>
Net assets beginning of year (restated)	<u><u>\$ 2,611,682</u></u>

REQUIRED SUPPLEMENTAL INFORMATION

Beal City Public Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 264,480	\$ 282,718	\$ 453,293	\$ 170,575
State sources	4,271,140	4,483,904	4,529,868	45,964
Federal sources	100,430	96,560	99,591	3,031
Interdistrict sources	193,500	377,115	206,674	(170,441)
Total revenues	4,829,550	5,240,297	5,289,426	49,129
Expenditures				
Instruction				
Basic programs	2,497,860	2,609,464	2,508,359	(101,105)
Added needs	632,260	633,118	613,391	(19,727)
Adult and continuing education	147,840	148,550	148,206	(344)
Supporting services				
Pupil	108,490	113,476	111,536	(1,940)
Instructional staff	146,030	149,796	130,520	(19,276)
General administration	194,690	183,273	183,498	225
School administration	289,400	304,003	297,652	(6,351)
Business	110,500	119,892	116,916	(2,976)
Operations and maintenance	500,230	516,805	516,195	(610)
Pupil transportation services	373,090	375,837	350,226	(25,611)
Central	90,720	106,801	104,704	(2,097)
Community services	2,200	4,908	2,125	(2,783)
Intergovernmental payments	580	575	5,707	5,132
Capital outlay	-	154,443	108,722	(45,721)
Total expenditures	5,093,890	5,420,941	5,197,757	(223,184)
Excess (deficiency) of revenues over expenditures	(264,340)	(295,000)	91,669	272,313

Beal City Public Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Uses				
Transfers out	<u>(305,000)</u>	<u>(295,000)</u>	<u>(289,105)</u>	<u>(5,895)</u>
Net change in fund balance	<u>(569,340)</u>	<u>(590,000)</u>	<u>(197,436)</u>	<u>266,418</u>
Fund balance - beginning	<u>2,034,209</u>	<u>2,034,209</u>	<u>2,034,209</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,464,869</u>	<u>\$ 1,444,209</u>	<u>\$ 1,836,773</u>	<u>\$ 266,418</u>

OTHER SUPPLEMENTAL INFORMATION

Beal City Public Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Food Services</u>	<u>Athletics</u>	<u>2002</u>	<u>2004</u>	<u>Public Improvement</u>	
Assets						
Cash	\$ 64,982	\$ 8,073	\$ 27,012	\$ 43,465	\$ 166,686	\$ 310,218
Accounts receivable	-	2,937	-	-	-	2,937
Due from other funds	21,744	-	-	-	-	21,744
Due from other governmental units	1,560	-	-	-	-	1,560
Inventory	1,454	-	-	-	-	1,454
Total assets	<u>\$ 89,740</u>	<u>\$ 11,010</u>	<u>\$ 27,012</u>	<u>\$ 43,465</u>	<u>\$ 166,686</u>	<u>\$ 337,913</u>
Liabilities and Fund Balance						
Liabilities						
Accounts payable	\$ -	\$ 10,496	\$ -	\$ -	\$ -	\$ 10,496
Accrued expenditures	1,507	-	-	-	-	1,507
Accrued salaries payable	2,917	-	-	-	-	2,917
Deferred revenue	5,969	-	-	-	-	5,969
Total liabilities	<u>10,393</u>	<u>10,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,889</u>
Fund Balance						
Reserved for inventory	1,454	-	-	-	-	1,454
Reserved for debt service	-	-	27,012	43,465	-	70,477
Reserved for capital projects	-	-	-	-	166,686	166,686
Other undesignated	77,893	514	-	-	-	78,407
Total fund balance	<u>79,347</u>	<u>514</u>	<u>27,012</u>	<u>43,465</u>	<u>166,686</u>	<u>317,024</u>
Total liabilities and fund balance	<u>\$ 89,740</u>	<u>\$ 11,010</u>	<u>\$ 27,012</u>	<u>\$ 43,465</u>	<u>\$ 166,686</u>	<u>\$ 337,913</u>

Beal City Public Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	Special Revenue Funds		Debt Service Funds				Capital Projects Funds		Total Nonmajor Governmental Funds
	Food Services	Athletics	1996	2002	2004	Durant	Public Improvement	Capital Projects	
Revenues									
Local sources	\$ 117,380	\$ 57,480	\$ 38	\$ 115,042	\$ 348,938	\$ -	\$ 3,508	\$ 15	\$ 642,401
State sources	13,137	-	-	-	-	3,316	-	-	16,453
Federal sources	86,037	-	-	-	-	-	-	-	86,037
Total revenues	<u>216,554</u>	<u>57,480</u>	<u>38</u>	<u>115,042</u>	<u>348,938</u>	<u>3,316</u>	<u>3,508</u>	<u>15</u>	<u>744,891</u>
Expenditures									
Current									
Education									
Food services	204,750	-	-	-	-	-	-	-	204,750
Athletic activities	-	194,157	-	-	-	-	-	-	194,157
Capital outlay	2,460	7,530	-	-	-	-	171,567	971	182,528
Debt service									
Principal	-	-	-	50,000	230,000	2,286	-	-	282,286
Interest and other expenditures	-	-	-	75,350	150,163	1,030	-	-	226,543
Total expenditures	<u>207,210</u>	<u>201,687</u>	<u>-</u>	<u>125,350</u>	<u>380,163</u>	<u>3,316</u>	<u>171,567</u>	<u>971</u>	<u>1,090,264</u>
Excess (deficiency) of revenues over expenditures	<u>9,344</u>	<u>(144,207)</u>	<u>38</u>	<u>(10,308)</u>	<u>(31,225)</u>	<u>-</u>	<u>(168,059)</u>	<u>(956)</u>	<u>(345,373)</u>
Other Financing Sources (Uses)									
Proceeds from school bond loan fund	-	-	-	-	68,650	-	-	-	68,650
Transfers in	-	139,105	-	17,850	10,300	-	150,000	-	317,255
Transfers out	-	-	(10,300)	-	(17,850)	-	-	-	(28,150)
Total other financing sources (uses)	<u>-</u>	<u>139,105</u>	<u>(10,300)</u>	<u>17,850</u>	<u>61,100</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>357,755</u>
Net change in fund balance	9,344	(5,102)	(10,262)	7,542	29,875	-	(18,059)	(956)	12,382
Fund balance - beginning	<u>70,003</u>	<u>5,616</u>	<u>10,262</u>	<u>19,470</u>	<u>13,590</u>	<u>-</u>	<u>184,745</u>	<u>956</u>	<u>304,642</u>
Fund balance - ending	<u>\$ 79,347</u>	<u>\$ 514</u>	<u>\$ -</u>	<u>\$ 27,012</u>	<u>\$ 43,465</u>	<u>\$ -</u>	<u>\$ 166,686</u>	<u>\$ -</u>	<u>\$ 317,024</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2006

	<u>2006</u>	<u>2005</u>
Assets		
Cash	\$ 1,495,526	\$ 1,724,947
Accounts receivable	16,451	9,763
Due from other governmental units	818,455	786,429
Interest receivable	13,863	17,555
Prepaid items	<u>26,222</u>	<u>28,595</u>
 Total assets	 <u>\$ 2,370,517</u>	 <u>\$ 2,567,289</u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 41,239	\$ 39,817
Due to other funds	21,744	13,845
Accrued expenditures	181,396	171,691
Accrued salaries payable	275,502	264,588
Deferred revenue	<u>13,863</u>	<u>43,140</u>
 Total liabilities	 <u>533,744</u>	 <u>533,081</u>
 Fund Balance		
Reserved for prepaid items	26,222	28,595
Reserved for grants	135,623	64,244
Other undesignated	<u>1,674,928</u>	<u>1,941,369</u>
 Total fund balance	 <u>1,836,773</u>	 <u>2,034,208</u>
 Total liabilities and fund balance	 <u>\$ 2,370,517</u>	 <u>\$ 2,567,289</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Revenues
For the Year Ended June 30, 2006

Revenue from local sources

Property tax levy	\$ 193,210
Tuition	30,439
Transportation fees	633
Earnings on investments	35,064
Other local revenues	<u>193,947</u>
Total revenues from local sources	<u>453,293</u>

Revenues from state sources

Grants - unrestricted	4,354,791
Grants - restricted	<u>175,077</u>
Total revenues from state sources	<u>4,529,868</u>

Revenues from federal sources

Grants	<u>99,591</u>
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Interdistrict sources

Transportation	10,761
ISD collected millage	<u>195,913</u>
Total interdistrict sources	<u>206,674</u>

Total revenue and other financing sources	<u>\$ 5,289,426</u>
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Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
For the Year Ended June 30, 2006

Basic program - elementary

Salaries	\$ 751,886
Employee benefits	378,438
Purchased services	6,196
Supplies and materials	<u>56,450</u>
Total elementary	<u>1,192,970</u>

Basic program - high school

Salaries	766,570
Employee benefits	372,763
Purchased services	40,973
Supplies and materials	<u>47,628</u>
Total high school	<u>1,227,934</u>

Basic program - pre-school

Salaries	60,665
Employee benefits	21,550
Purchased services	342
Supplies and materials	<u>1,381</u>
Total pre-school	<u>83,938</u>

Basic program - summer school

Salaries	2,666
Employee benefits	613
Supplies and materials	<u>238</u>
Total summer school	<u>3,517</u>

Added needs - special education

Salaries	186,606
Employee benefits	73,955
Purchased services	300
Supplies and materials	<u>2,702</u>
Total special education	<u>263,563</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
For the Year Ended June 30, 2006

Added needs - compensatory education

Salaries	\$ 118,783
Employee benefits	63,054
Supplies and materials	<u>2,318</u>
Total compensatory education	<u>184,155</u>

Added needs - career and technical education

Salaries	30,852
Employee benefits	16,015
Purchased services	110,877
Supplies and materials	<u>7,929</u>
Total career and technical education	<u>165,673</u>

Adult and continuing education - basic

Salaries	48,493
Employee benefits	21,908
Purchased services	1,036
Supplies and materials	<u>4,736</u>
Total basic	<u>76,173</u>

Adult and continuing education - secondary

Salaries	44,486
Employee benefits	22,890
Purchased services	406
Supplies and materials	<u>4,251</u>
Total secondary	<u>72,033</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
For the Year Ended June 30, 2006

Pupil - guidance services

Salaries	\$ 71,503
Employee benefits	36,564
Supplies and materials	<u>1,886</u>
Total guidance services	<u>109,953</u>

Pupil - other support services

Salaries	1,270
Employee benefits	<u>313</u>
Total other pupil support services	<u>1,583</u>

Instructional staff - improvement of education

Salaries	7,889
Employee benefits	1,780
Purchased services	11,396
Supplies and materials	<u>1,785</u>
Total improvement of education	<u>22,850</u>

Instructional staff - educational media services

Salaries	63,913
Employee benefits	28,267
Purchased services	3,650
Supplies and materials	<u>11,840</u>
Total educational media services	<u>107,670</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
For the Year Ended June 30, 2006

General administration - board of education

Purchased services	\$ 33,905
Supplies and materials	278
Other	<u>14,029</u>
Total board of education	<u>48,212</u>

General administration - executive administration

Salaries	92,839
Employee benefits	37,898
Purchased services	2,632
Supplies and materials	1,483
Other	<u>434</u>
Total executive administration	<u>135,286</u>

School administration - office of the principal

Salaries	182,550
Employee benefits	95,557
Purchased services	2,880
Supplies and materials	11,393
Other	<u>2,170</u>
Total office of the principal	<u>294,550</u>

School administration - other

Supplies and materials	<u>3,102</u>
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Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
For the Year Ended June 30, 2006

Business - fiscal services

Salaries	\$ 57,501
Employee benefits	42,447
Supplies and materials	<u>77</u>
Total fiscal services	<u>100,025</u>

Business - other

Purchased services	9,782
Other	<u>7,109</u>
Total other business	<u>16,891</u>

Operations and maintenance - operating building services

Salaries	149,949
Employee benefits	65,631
Purchased services	159,335
Supplies and materials	139,721
Other	<u>1,559</u>
Total operating building services	<u>516,195</u>

Pupil transportation services

Salaries	99,204
Employee benefits	161,065
Purchased services	66,699
Supplies and materials	<u>23,258</u>
Total transportation services	<u>350,226</u>

Central - staff/personnel services

Purchased services	<u>8,062</u>
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Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures
For the Year Ended June 30, 2006

Central - support services technology

Salaries	\$ 55,977
Employee benefits	29,051
Purchased services	11,435
Other	<u>179</u>
Total support services technology	<u>96,642</u>

Community services - community activities

Purchased services	<u>1,250</u>
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Community services - non-public school pupils

Purchased services	<u>875</u>
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Intergovernmental payments

Payments to other public schools	<u>5,707</u>
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Capital outlay

Basic program - elementary	1,302
Basic program - high school	51,329
Added needs - career and technical education	899
Adult and continuing education - basic	6,230
Adult and continuing education - secondary	6,715
Instructional staff - educational media services	1,563
School administration - office of the principal	16
Operations and maintenance - operating building services	1,663
Pupil transportation services	360
Central - support services technology	<u>38,645</u>
Total capital outlay	<u>108,722</u>

Other financing uses

Transfers out	<u>289,105</u>
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Total expenditures and financing uses	<u>\$ 5,486,862</u>
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Beal City Public Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2006

	Due to (From) Student Groups June 30, 2005	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2006
Athletic account	\$ 2,391	\$ 348	\$ 1,374	\$ 1,365
Athletic physicals	1,992	-	-	1,992
Band	378	8,511	8,603	286
Baseball	789	3,476	4,233	32
Basketball - Boys	1,157	4,994	3,830	2,321
Basketball - Girls	4,234	3,448	4,028	3,654
B.P.A.	790	-	-	790
Camp	10,611	17,347	17,990	9,968
Cheerleading	673	-	552	121
Class of 1992	75	-	-	75
Class of 1998	5	-	5	-
Class of 2000	341	-	-	341
Class of 2001	301	-	-	301
Class of 2002	1,216	-	-	1,216
Class of 2003	54	-	-	54
Class of 2004	703	-	40	663
Class of 2005	232	-	232	-
Class of 2006	2,462	70	1,162	1,370
Class of 2007	3,486	1,395	2,426	2,455
Class of 2008	1,293	532	404	1,421
Class of 2009	1,460	325	63	1,722
Class of 2010	388	3,781	2,328	1,841
Class of 2011	-	6,811	4,830	1,981
Close up	40	1,989	1,064	965
Cross country	1,358	699	1,125	932
Drama	1,359	2,447	1,055	2,751
Miscellaneous - elementary	6,324	15,617	15,017	6,924
Elementary teachers account	10,521	8,523	7,092	11,952
Football	1,077	5,802	2,606	4,273

Beal City Public Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2006

	Due to (From) Student Groups June 30, 2005	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2006
FFA	(103)	13,029	12,383	543
Ignition wrestling	150	-	-	150
Key account	100	-	-	100
Media center	2,359	6,830	7,119	2,070
National honor society	823	6,207	4,793	2,237
Natural helpers	470	1,025	1,415	80
Principal	2,423	12,409	10,651	4,181
Project Pals	3,588	1,136	1,060	3,664
S.A.D.D.	2,228	35	2,263	-
SCA	-	5,682	1,500	4,182
Softball	1,301	2,193	956	2,538
Student council	3,974	2,315	2,252	4,037
Tempo club	1,121	51,268	46,464	5,925
Track - men's	1,343	843	275	1,911
Track - women's	1,669	1,058	324	2,403
Volleyball	3,010	-	240	2,770
Wrestling	3,279	-	-	3,279
Yearbook	6,432	15,481	16,359	5,554
Youth in government	181	7,480	7,379	282
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 90,058</u>	<u>\$ 213,106</u>	<u>\$ 195,492</u>	<u>\$ 107,672</u>

Beal City Public Schools
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2006

Year Ending June 30,	2002	2004	Durant	Total
2007	\$ 50,000	\$ 245,000	\$ 10,924	\$ 305,924
2008	50,000	260,000	2,509	312,509
2009	60,000	265,000	2,628	327,628
2010	60,000	275,000	2,753	337,753
2011	65,000	280,000	2,885	347,885
2012	65,000	295,000	3,022	363,022
2013	65,000	305,000	3,166	373,166
2014	75,000	300,000	-	375,000
2015	75,000	300,000	-	375,000
2016	75,000	300,000	-	375,000
2017	75,000	300,000	-	375,000
2018	75,000	300,000	-	375,000
2019	75,000	295,000	-	370,000
2020	80,000	290,000	-	370,000
2021	80,000	285,000	-	365,000
2022	80,000	-	-	80,000
2023	80,000	-	-	80,000
2024	80,000	-	-	80,000
2025	80,000	-	-	80,000
2026	80,000	-	-	80,000
2027	80,000	-	-	80,000
Total	\$ 1,505,000	\$ 4,295,000	\$ 27,887	\$ 5,827,887

Principal payments
due the first day of

May

May

May 15th

Interest payments
due the first day of

May and
November

May and
November

May 15th

Interest rate

2.00% - 4.10%

4.25% - 5.10%

4.761353%

Original issue

\$ 4,570,000

\$ 1,690,000

\$ 47,228

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Members of the Board of Education
Beal City Public Schools
Mt. Pleasant, Michigan

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Beal City Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated July 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Beal City Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beal City Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Beal City Public Schools in a separate letter dated July 20, 2006.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Alma, Michigan
July 20, 2006



7810 N. Alger Rd.
Alma, MI 48801
Phone (989) 463-6108
Fax (989) 463-8560

July 20, 2006

To the Board of Education
Beal City Public Schools
Mt. Pleasant, Michigan

In planning and performing our audit of the general purpose financial statements of Beal City Public Schools for the year ended June 30, 2006, we considered the District's internal control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. As a result of the aforementioned study, we became aware of the following matters that are an opportunity for strengthening internal control and operating efficiency. The following summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated July 20, 2006 on the financial statements of Beal City Public Schools.

PRIOR COMMENTS AND RECOMMENDATIONS

ATHLETIC RECEIPTS

Upon our review of the receipts system in the area of athletics, we noted that tickets were not being used at athletic events. It is our recommendation that the District implements a ticket log sheet and distributes tickets at all athletic events to strengthen internal controls. The tickets should be torn in half so that they cannot be reused. We also recommend preparing a reconciliation of tickets sold to money collected for each athletic event. A ticket log sheet and reconciliation will add as another checks and balances to the athletic receipt system.

We will review the status of these comments during our next audit engagement. We will be happy to discuss with you, at your convenience, any accounting or reporting issues for which you would like additional information or guidance. We are grateful for the opportunity to be of service to the District and would appreciate any referrals or recommendations you might have for ways that we can improve our service to you.

Sincerely,

YEO & YEO, P.C.
CPAs and Business Consultants

Thomas E. Coulter, CPA